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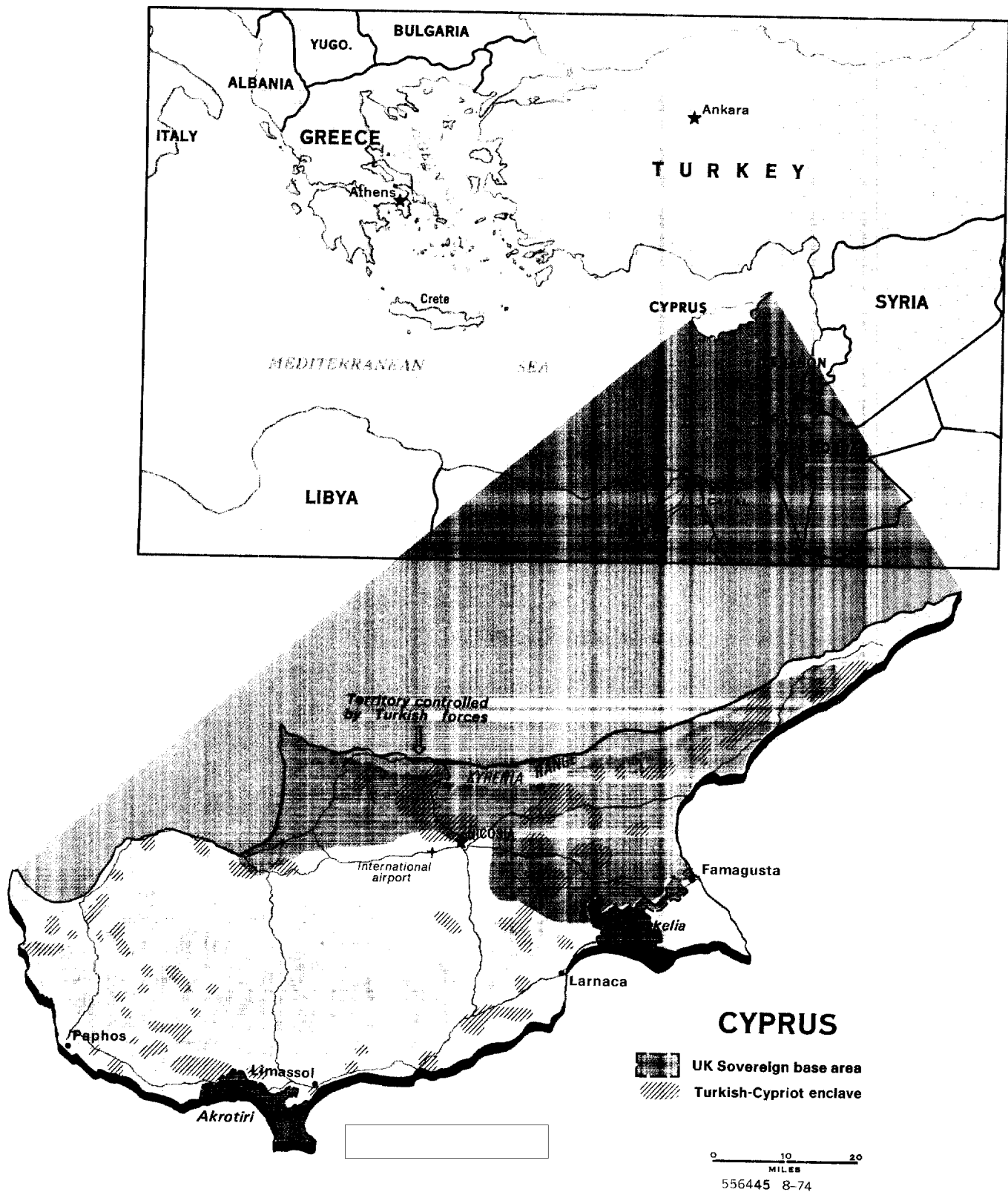
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CYPRUS-GREECE-TURKEY

Diplomatic efforts to get Greek and Turkish Cypriot leaders talking again made some progress yesterday. Cypriot President Clerides has agreed to meet with his Turkish Cypriot counterpart to discuss urgent humanitarian problems--such as refugees--arising from the Cyprus conflict. Although the announced scope of the discussion is narrow, it is likely to extend to political matters.

Athens continues to refuse to participate in Cyprus peace talks until the Turkish forces pull back to the positions they occupied on August 9, when demarcation lines were agreed upon. By setting what it knows to be an impossible condition, Athens clearly wishes to avoid responsibility for negotiating at such a disadvantage, preferring that the Greek Cypriots take the lead. Athens may at some future date agree to negotiate a wider political settlement with Turkey that would include other issues such as the Aegean seabeds dispute.

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In a press conference yesterday, Turkish Cypriot leader Rauf Denktash warned that the Turkish army would undertake new military action to protect Turkish Cypriots if President Clerides is unable to control the Greek Cypriots. Denktash expressed impatience with Clerides in a conversation with US Ambassador Brown yesterday, saying that there is "no government" on the Greek side of the line. He also said that only a limited number of Greek Cypriots would be permitted to return to their homes in the Turkish area.

Clerides has admitted [redacted] he is not politically strong enough to take on the various terrorist groups in Cyprus at this time. He said he would try to regroup these elements under some sort of state control and then disarm them. He said that there is considerable confusion among the terrorist groups but that much depended on the Turks and that if they were reasonable, his task would be much easier.

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The Greek government has banned all demonstrations, and the US embassy reports that anti-US incidents have generally diminished. Greece continues, however, to refuse diplomatic clearance for landings at Greek airfields other than Athens, and flights in and out of Athens require six-hours prior notification.

According to NATO Acting Secretary General Pansa, the Greek Ministry of Defense on August 20 instructed the Greek representative on the NATO military committee that a fifteen-day withdrawal notice for Greek military personnel at NATO will become operative on the date Athens actually issues the recall order. Pansa observed that the Greek officers at NATO have to date received only a readiness order. The Greek delay in issuing the recall order has provided some encouragement to NATO authorities that Athens is having second thoughts about withdrawing from the NATO integrated command.

According to the press, Foreign Minister Mavros has informed the Soviet government that Greece is ready to withdraw its troops from Cyprus if Moscow could guarantee

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25X1 that the Turks will follow suit. [REDACTED]

[REDACTED]

No reports of major cease-fire violations on Cyprus were received yesterday. There were a few relatively minor clashes in Nicosia and around the Turkish enclave just west of Larnaca. The latter skirmish appears to have been between Cypriot forces. The UN contingent patrolling Famagusta is continuing to ignore the Turkish order to withdraw from the area.

Reconnaissance flights from the USS Forrestal have not sighted any Greek or Turkish combatants in the area around Crete. There are no indications that the Greek troops transported to Crete on commercial ferries over the weekend are being moved to Cyprus.

25X1 According to the Greek press, there was an incident yesterday on the Greek/Turkish frontier in the Evros area resulting in the death of one Turkish soldier. This is the first such incident in the border area.

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SYRIA

Syrian Foreign Minister Khaddam's visit to Washington this week underscores Syria's interest in pursuing its objectives, for the present at least, through negotiations rather than war. President Asad put the Syrian army on a precautionary alert over recent weeks, but otherwise Damascus' reaction over the past month to Israeli military maneuvers and talk of war has been unusually restrained.

While in Yugoslavia last week, Asad accused the Israelis of raising tensions in an attempt to stall negotiations and warned that Syria was ready to rebuff any Israeli attacks. He said that Syria might have to use force again if Israel continued to throw "obstacles in the path to peace," but in the joint communiqué issued at the end of the visit the Syrians implicitly stressed the need to continue efforts to find a peaceful solution.

The reorganization and intensive retraining of the Syrian armed forces and the Soviet military resupply effort have been cited [redacted] recently as evidence of hostile intent. There is no real sign that Syria is preparing to renew hostilities soon or that Asad is under pressure to do so. For the present, the Syrians seem to be concentrating on establishing a credible threat so that Asad can negotiate from strength.

There is always the danger, of course, that the Syrians might become disenchanted with the peace talks, but they do not appear anywhere near that point now. Also, the Syrians know that without Egyptian support or the element of surprise, they would risk disaster by carrying out a large scale attack against Israel.

In the meantime, Asad seems preoccupied with sorting out his relations with Egypt, Jordan, and the Palestine Liberation Organization in preparation for the next stage of the Geneva talks. Asad met with PLO chief Yasir Arafat earlier this month. [redacted]

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INTERNATIONAL MONETARY

Reports that oil producers have begun investing more funds directly in the US were a major factor in the dollar's sharp rise on foreign currency exchanges last week. Since August 9, the pound declined nearly 2 percent against the dollar; other European currencies declined up to 2 percent in relatively active trading.

The reports apparently stem from Kuwait's taking a larger part of its mounting oil revenues in dollars. Kuwait is not selling off its sterling holdings, as some press reports indicate. The last oil payment, made to Kuwait at the end of July, consisted of a much higher share of dollars and a relatively lower proportion of sterling than payments made under an agreement with the oil companies that was renegotiated last May.

Although this agreement does not specify the percentages of currencies in which payment must be made, Kuwait's willingness to accept a lower proportion of sterling indicates that it does not intend to increase its sterling holdings as rapidly as in the past.

As a result, the British are receiving a smaller share of the return flow of oil revenues and will find it necessary to finance a larger proportion of their oil bill through dollar borrowing.

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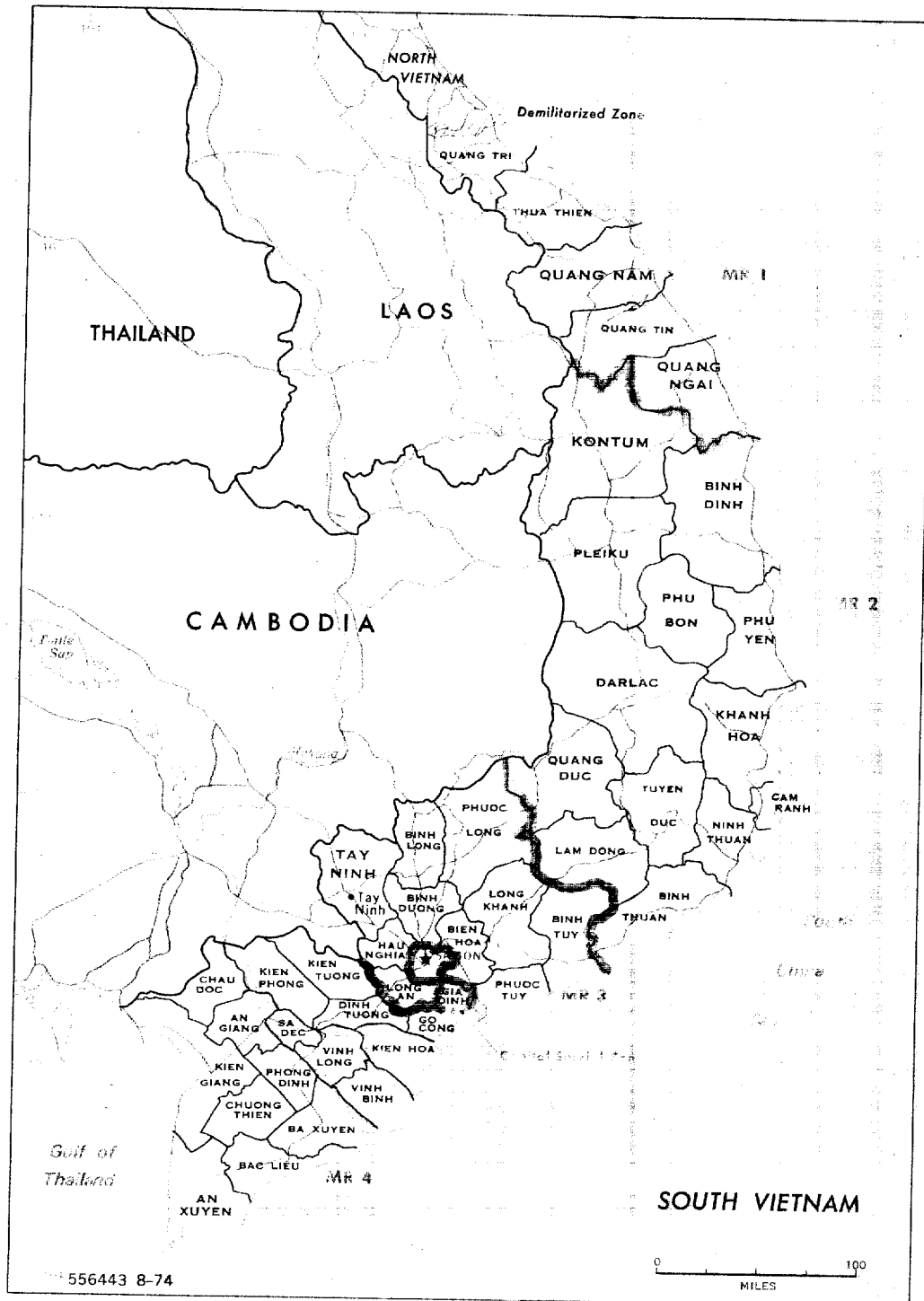
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SOUTH VIETNAM

Fighting is continuing in the northern provinces, the central highlands, and north and west of Saigon.

Continued North Vietnamese military pressure in Quang Ngai and Quang Nam has led the government to consider abandoning some of its geographically isolated outposts in the north, should they come under heavy Communist attack.

Further south, the government's loss of an outpost in Kontum Province has been confirmed: Mang Buk fell on August 20 after heavy artillery, mortar, and ground attacks.

Communist attacks in southeastern Tay Ninh Province have forced government regional forces to abandon two small outposts. Despite the loss of these two positions, there are no signs that the Communists are planning heavier action against the provincial capital of Tay Ninh City. They are likely, however, to continue action against other government outposts in the province.

Although government commanders are generally satisfied with the performance of their units, they are complaining of shortages of ammunition and equipment. They

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are also pointing to the large amounts of ammunition and equipment the Communists have been using as a sign that the Communists have more than sufficient resources and intend to maintain the pace of fighting for the next several weeks. Nonetheless, these commanders remain confident that they can contain the attacks and that South Vietnamese forces can eventually retake most lost positions.

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USSR

Soviet media are still taking a cautiously optimistic line on the significance of political developments in Washington for Soviet-US relations. The Soviets are emphasizing the "purely domestic" reasons for President Nixon's resignation, and one Soviet writer specifically rejected the arguments of those who would link US domestic problems with the relaxation of tensions between Moscow and Washington. The Soviets continue to stress a theme that began to gain prominence in the late spring and early summer: that there is widespread support for detente in most, if not quite all, circles in the US and that the movement toward detente stems from overriding historical and "objective" circumstances. Moscow thus is minimizing the impact of the change in administrations and is at least implicitly endorsing President Ford's remarks regarding the continuity of US policy toward the Soviet Union. Nonetheless, Moscow is doubtless reassessing the mid- to long-term outlook for US-Soviet relations. The Soviets themselves are showing no signs of a reduced interest in detente.

The Soviets may even believe that a President unencumbered by Watergate may make more rapid progress in resolving bilateral issues. Moscow was quick to report President Ford's activities in behalf of the trade reform bill and the improved prospects for early extension of most-favored-nation status to the USSR. Moscow may also see better chances for progress in the three major sets of security negotiations--SALT, CSCE, MBFR--where movement has been minimal in recent months. The Soviets have been particularly vocal since the summit on the necessity of further advances in arms control. Although much of their recent rhetoric has centered on a comprehensive nuclear test ban and denuclearization of the Mediterranean--old Soviet favorites advanced largely for their propaganda value--Moscow seems genuinely concerned about the lost momentum in the disarmament field. There is no clear evidence, however, that this concern will be translated into significant Soviet concessions when the talks resume next month.

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The early signs are that the Soviets will be reassured by the nomination of Governor Rockefeller, whose support for detente and whose ties to Secretary Kissinger have been noted in the Soviet and East European media. Soviet public reaction to Mr. Rockefeller's nomination has been limited almost entirely to factual reporting. In the only commentary available, a Moscow broadcaster noted on Tuesday that in 1972 Governor Rockefeller had "evaluated highly" the steps taken to improve US-Soviet relations.

The Soviets are probably somewhat less sanguine about the relative priorities of President Ford's administration.

the Soviet press has begun to emphasize US internal problems, particularly the "worsening economic situation." A Pravda article on Tuesday ascribed the resignations of President Nixon and Vice President Agnew to "contradictions of capitalist society and serious conflicts among ruling circles." At the same time, the Soviets have said that economic difficulties in the US may cause Washington to be more interested in trade with the USSR.

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PORTUGAL

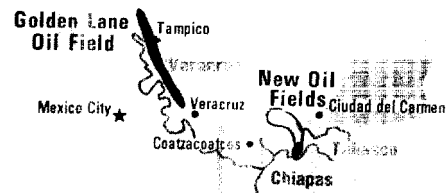
President Spinola has again threatened to resign because of differences with the Armed Forces Movement.

Spinola's threat was a result of conflicts with the movement on such issues as decolonization policy, purging the officer corps, and the relationship of the movement to the regular military hierarchy. Spinola was dissuaded by Armed Forces Chief of Staff Costa Gomes, who has been acting as conciliator between the two sides.

This latest resignation threat--like the one in mid-June--may be a move to pressure the movement, which has been acting as a final arbiter on government decisions. Spinola's position was temporarily strengthened after his threat in June, but the cabinet shuffle a month later was provoked by his continuing disagreements with the movement and marked a loss of power for him.

Although press reports indicate that the movement reiterated its support for Spinola late last week, he failed to win unanimous support as he had in June. This diminution of his influence may stem both from the emergence of Costa Gomes as a power in his own right and a growing realization by the movement that an effective partnership with Spinola may not be possible. The movement may also be emboldened by its success in guiding the African colonies toward independence more quickly than Spinola would like.

MEXICO



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MEXICO

Mexico has discovered what may prove to be giant oil fields in its Chiapas and Tabasco states that could change the petroleum market in the Western Hemisphere.

If the more optimistic estimates of the new fields' potential are borne out, Mexico could rank alongside Venezuela within a few years as the hemisphere's leading oil exporter. Venezuela's proved reserves, now estimated at 14 billion barrels, have been declining steadily as a result of reduced exploration.



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The state oil company discovered the new fields in 1972, and all subsequent wells have proved successful. Another dozen or so geological structures likely to be productive have been mapped in the area. Mexico has already earmarked \$1.4 billion to explore and develop the new deposits during 1974-76. These fields are being widely compared with the "Golden Lane" fields that made Mexico the world's largest oil exporter early in the century. The oil is of high quality. Reservoir pressures, gas/oil ratios, and other indicators are all highly promising.

Mexican officials, meanwhile, have announced an abrupt turnaround in the nation's crude oil supply. In June, sharply increased production from the new deposits allowed Mexico to break the record of 521,000 barrels per day set in 1921, to end crude oil imports of 65,000 barrels per day, and to declare an exportable surplus.

Mexican oil production will probably exceed 750,000 barrels per day by the end of 1974, and the country will have an exportable surplus in excess of 150,000 barrels per day. Transporting this oil should pose no problem; the fields are close to port facilities on the Gulf of Mexico. The discovery is also likely to bring a 20-percent increase in gas production.

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SPANISH SAHARA

Madrid yesterday informed the UN that a referendum to decide the political future of Spanish Sahara will be held in the first half of 1975. Spain said that its decision is consistent with UN resolutions' calling for self-determination for territory.

King Hassan, who claims the province for Morocco, has been pushing for direct negotiations with Madrid, but indicated in a speech on August 20 that he would not oppose a referendum. He will, however, want to ensure that the 20,000-25,000 Saharans he claims live in Morocco are allowed to participate and that the referendum question is framed in terms acceptable to Rabat.

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Cambodia: Prince Sihanouk arrived in Bucharest on August 20, ostensibly to attend Romania's 30th anniversary of liberation from Nazism. An official delegation from the Lon Nol government is also in Bucharest for the World Population Conference. One of Phnom Penh's delegates is former prime minister Hang Tun Hak, who has tried unsuccessfully in the past to open channels to Sihanouk. There is as yet no evidence that Sihanouk plans any contacts with Phnom Penh officials, but the Romanians have expressed interest in acting as intermediaries and may try to arrange a meeting. [REDACTED]

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